

Message Text

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S E C R E T STATE 251832 TOSEC 160267

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E.O. 11652: GDS

TAGS: ENRG

SUBJECT: STRATEGY AND TACTICS FOR DIALOGUE ON INTERNATIONAL
ECONOMIC COOPERATION

REF: SECTO 16028

FOR THE SECRETARY FROM ENDERS

EYES ONLY FOR UNDER SECRETARY ROBINSON, EXCLUSIVELY

1. THIS MESSAGE RESPONDS TO PARA 3 OF REFTTEL ON THE
MINISTERIAL CONFERENCE FOR THE DIALOGUE. E, NSC, S/P, AND
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EUR HAVE CONTRIBUTED TO MESSAGE. UNDER SECRETARY ROBINSON
MAY WISH TO COMMENT FROM PARIS.

2. WITH THE SUCCESSFUL CONCLUSION OF PREPCON II, THE

DECEMBER MINISTERIAL CONFERENCE BECOMES THE NEXT MAJOR EVENT IN THE DIALOGUE ON INTERNATIONAL ECONOMIC COOPERATION. WE PLAN TO USE THE CONFERENCE TO ESTABLISH THE PARAMETERS FOR THE DIALOGUE THAT WILL PERMIT US TO ACHIEVE OUR STRATEGIC OBJECTIVES.

3. DIALOGUE OBJECTIVES: WITHIN THE CONTEXT OF PROMOTING ACCELERATED, SELF-SUSTAINING GROWTH IN THE DEVELOPING WORLD IN AN ENVIRONMENT OF CONTINUING WORLDWIDE GROWTH,

OUR BASIC OBJECTIVES FOR THE DIALOGUE ARE:

-- TO DEVELOP, IN AN INSTITUTIONAL PROCESS IN WHICH WE HAVE THE KEY MEDIATING ROLE, THE US APPROACH TO NORTH/SOUTH ISSUES AS SET FORTH IN YOUR UN SPEECH;

-- TO FACILITATE INTEGRATION OF THE NEWLY IMPORTANT OPEC ECONOMIES INTO THE WORLD TRADING AND FINANCIAL SYSTEMS AND ENCOURAGE THE DEVELOPMENT OF A MORE RESPONSIBLE SET OF ATTITUDES ON THE PART OF THE OIL PRODUCERS;

-- TO KEEP THE EUROPEANS AND JAPANESE FIRMLY COMMITTED TO A COORDINATED APPROACH TO OPEC WHICH SUPPORTS OUR POLITICAL AND ENERGY OBJECTIVES IN THE IEA;

-- TO WEAKEN THE OPEC/LDC ALLIANCE BY DEMONSTRATING TO THE LDCS THAT THEIR INTERESTS ARE MORE CLOSELY LINKED TO THOSE OF THE INDUSTRIAL WORLD THAN TO OPEC, THUS INTENSIFYING POTENTIAL LDC PRESSURE ON OPEC PRICING DECISIONS; AND

-- TO TRY TO MODERATE OPEC PRICE INCREASES IN THE SHORT-TO-MEDIUM TERM BUT NOT AT THE EXPENSE OF COSTLY AND UNECONOMIC COMMITMENTS OR BECOMING THE DEMANDEUR IN THE ENERGY COMMISSION.

4. PREPCON II: IN ADDITION TO REINFORCING THE NEW ATMOSPHERE OF INTERNATIONAL COOPERATION, IN PREPCON II WE:
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-- MAINTAINED THE INTEGRITY OF THE CONSENSUS ESTABLISHED IN THE AIDE MEMOIRE AND ELABORATED AT THE PREPCON;

-- REDUCED THE LIKELIHOOD THAT THE OPEC/LDC GROUP WOULD ATTEMPT TO ESTABLISH SPECIFIC GUIDELINES FOR THE FOUR COMMISSIONS BEFORE OR DURING THE MINISTERIAL CONFERENCE;

-- ENSURED THAT THE MAJOR SUBSTANTIVE WORK OF THE DIALOGUE WOULD BE DONE IN THE COMMISSIONS;

-- MAINTAINED INDUSTRIAL COUNTRY SOLIDARITY WITHOUT ANTAGONIZING THE SEVEN;

-- DID NOT REACH AGREEMENT ON THE SUBSTANCE OF THE DIALOGUE AND THE WORK OF THE COMMISSIONS, RESORTING INSTEAD TO YOUR SUGGESTED "SHANGHAI FORMULA" OF POSTPONING COMING TO GRIPS WITH THE DIVERGENT INTERESTS OF THE TWO SIDES;

-- LINKED THE WORK OF THE FOUR COMMISSIONS. SUCH A LINK DOES NOT CAUSE US SUBSTANTIVE PROBLEMS AND, IN FACT, MAY BE TURNED TO OUR ADVANTAGE. YET THE OTHER SIDE VIEWS THE LINK AS A MEANS OF EXERTING GREATER CONTROL OVER THE DIALOGUE;

-- DOWNPLAYED THE ROLE OF ENERGY WHICH MAY COST US SOME PUBLIC SUPPORT FOR THE DIALOGUE, BUT MAINTAINED FLEXIBILITY ON HOW WE CAN PLAY THE OIL PRICE ISSUE IN THE ENERGY COMMISSION AND

-- AVOIDED EXPANDING THE OFFICIAL SIZE OF THE COMMISSIONS BUT AGREED TO "AUDITORS" (MEMBERS OF THE 27 WHICH ARE NOT MEMBERS OF INDIVIDUAL COMMISSIONS) ATTENDING COMMISSIONS' SESSIONS. ALTHOUGH THE PRESENCE OF AUDITORS COULD INCREASE OPPORTUNITIES FOR LEVERAGE BETWEEN COMMISSIONS & MIGHT REDUCE PROSPECTS FOR EFFICIENT SERIOUS WORK IN COMMISSIONS, WE AGREED FOR TACTICAL REASONS TO THIS CONCESSION TO HOLD OFFICIAL PARTICIPATION TO 15.

5. PROBLEMS PRIOR TO MINISTERIAL: AS WE APPROACH THE DECEMBER MINISTERIAL, WE FACE TWO MAJOR PROBLEMS, ONE PROCEDURAL AND THE OTHER SUBSTANTIVE. THE PROCEDURAL
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ISSUE IS THE SELECTION OF NEW PARTICIPANTS IN THE DIALOGUE AND HOLDING THE OVERALL NUMBER TO 27. A LARGER CONFERENCE OF 40-50 NATIONS WOULD PROBABLY EXERCISE LESS CONTROL OVER THE DIALOGUE, BUT REOPENING THE REPRESENTATION QUESTION WOULD SET BACK THE TIMETABLE; COULD LEAD TO AN UNRAVELING OF THE CONSENSUS; AND WOULD LIKELY BLOW UP THE SIZE OF THE COMMISSIONS, MAKING THEM LESS TECHNICAL AND MORE POLITICAL. FURTHERMORE, ANY DELAY IN THE DIALOGUE WOULD LIKELY CAUSE SOME IEA MEMBERS TO INSIST ON DELAYING THE FINAL DISCUSSION ON THE LONG-TERM PROGRAM OF COOPERATION, WHICH IS CENTRAL TO OUR INTERNATIONAL ENERGY EFFORT.

6. THE GROUP OF 77 HAS A FORMIDABLE TASK OF RECONCILING THE DIVERSE AND OFTEN COMPETING INTERESTS OF ITS MEMBERS IN CHOOSING 12 ADDITIONAL REPRESENTATIVES, FOUR EACH FROM LATIN AMERICA, AFRICA, AND ASIA; IT COULD LATER INSIST ON ENLARGING CONFERENCE REPRESENTATION. IF THE UK PERSISTS IN ITS DEMAND TO REPRESENT ITSELF RATHER THAN TO PARTICIPATE IN THE EC DELEGATION, IT WILL BE IMPOSSIBLE TO HOLD THE TOTAL REPRESENTATION OF THE INDUSTRIAL WORLD TO 8. A SINGLE EC REPRESENTATION IS IN OUR ADVANTAGE BECAUSE THE UNWIELDY NATURE OF THE COMMUNITY CAUCUS ENHANCES OUR

LEVERAGE AND MEDIATING ROLE. FOR NOW, WE SHOULD CONTINUE TO LET THE EC DEAL WITH THE BRITISH DEMAND, BUT WE LATER MAY NEED TO CONSIDER INTERVENING IF THE EC FAILS TO BRING THE BRITISH IN LINE.

7. THE SUBSTANTIVE ISSUE IS THE STAGGERING BALANCE OF PAYMENTS DEFICITS OF THE DEVELOPING COUNTRIES WHICH HAVE RISEN FROM \$9 BILLION IN 1973 TO \$28 BILLION IN 1974 AND WILL REACH \$35 BILLION IN 1975. ABOUT ONE-THIRD OF THEIR CURRENT DEFICIT STEMS FROM INCREASED OIL PRICES; THE BALANCE REPRESENTS AN IMPROVEMENT IN THE PAYMENTS POSITION OF OIL-CONSUMING DEVELOPED COUNTRIES RELATIVE TO THE LDCS. IN EFFECT, OPEC OIL SURPLUS HAS BEEN SHIFTED TO THE DEFICIT OF THE DEVELOPING COUNTRIES.

8. OPEC IS MOVING AHEAD TO PROVIDE FINANCING. IRAN, VENEZUELA AND KUWAIT ARE PROPOSING A \$1.5 TO \$2 BILLION FUND. EUROPE IS ALSO MOVING TO MEET THE BALANCE OF PAY-
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MENTS PROBLEMS AS THE GERMANS NOW SUPPORT AN SDR LINK AND ARE SURFACING PROPOSALS FOR A MASSIVE DEBT MORATORIUM. THE FRENCH MAY ALSO PUT FORWARD PROPOSALS ON DEBT. NONE OF THESE PROPOSALS REALLY MEETS THE NEEDS OF THE LESS DEVELOPED COUNTRIES SINCE THEY ARE NOT BIG ENOUGH FINANCIALLY AND DO NOT HELP UNDERPIN LDCS CREDIT WORTHINESS AND THUS ACCESS TO CAPITAL MARKETS WHERE MOST OF THEIR MASSIVE DEFICITS WILL HAVE TO BE FINANCED.

9. BOTH TO MAINTAIN US LEADERSHIP AS AGAINST OPEC AND THE EUROPEANS AND TO MEET THE REAL NEEDS OF THE DEVELOPING COUNTRIES, WE NEED A PROPOSAL TO PROVIDE ADDITIONAL STANDBY FINANCING FOR LDCS. THIS WILL HAVE TO BE QUITE A LARGE SCHEME IF IT IS TO MAKE ANY IMPACT. WE ARE NOW EXAMINING POSSIBLE PROPOSALS FOR ACHIEVING OUR GOAL: IN PARTICULAR, FORMATION OF A NEW IMF FUND TO PROVIDE SHORT-TERM BALANCE OF PAYMENTS SUPPORT TO LDCS. THE ALTERNATIVES -- A SPECIAL ISSUE OF LINKED SDRS TO PERFORM THE SAME FUNCTION, AND INSTITUTION OF A SYSTEM OF REGULAR CREATION OF SDRS WITH AN AID LINK FOR LDCS -- ARE SUBSTANTIVELY AND BUREAUCRATICALLY MORE DIFFICULT.

10. MINISTERIAL CONFERENCE: WE WANT TO USE THE MINISTERIAL TO MAINTAIN THE MOMENTUM FOR A PRODUCTIVE DIALOGUE THAT WE CAN CONTROL AND WHICH EMPHASIZES THE US LEADERSHIP ROLE. THE MINISTERIAL SHOULD:

-- ENDORSE THE WORK OF PREPCON II;

-- GIVE SUPPORT TO THE CONSENSUS AND ITS SCENARIO FOR THE DIALOGUE;

-- FORMALLY LAUNCH THE DIALOGUE;

-- PROVIDE POLITICAL IMPETUS TO SERIOUS AND CONSTRUCTIVE WORK IN THE COMMISSIONS ON THE SUBSTANTIVE ISSUES;

-- SET AN OVERALL TONE FOR THE DIALOGUE OF PRAGMATIC COOPERATION IN CONTRAST TO IDEOLOGICAL CONFRONTATION.

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AT THE MINISTERIAL, WE WOULD SET FORTH OUR NEW PROPOSAL ON SHORT-TERM LDC PAYMENTS FINANCING. IN GENERAL, HOWEVER, WE WANT TO PREVENT THE MINISTERIAL FROM BECOMING A NEGOTIATING FORUM FOR NEW INITIATIVES. WE WANT TO MINIMIZE ITS SUPERVISORY ROLE OVER THE COMMISSIONS IN ORDER THAT THE COMMISSIONS CAN PROCEED AT THEIR OWN PACE AND, TO THE EXTENT POSSIBLE, INDEPENDENT OF EACH OTHER.

11. IN YOUR SPEECH TO THE MINISTERIAL, YOU WOULD PUT FORWARD OUR NEW PROPOSAL AND EMPHASIZE THAT THE MAJOR PURPOSE OF THE DIALOGUE IS TO INCREASE COOPERATION BETWEEN OIL PRODUCING, OIL CONSUMING, AND DEVELOPING COUNTRIES TO STIMULATE MUTUALLY BENEFICIAL ECONOMIC DEVELOPMENT. YOU COULD STRESS THAT THE DIALOGUE CAN CONTRIBUTE TO FINDING PRACTICAL SOLUTIONS TO INTERNATIONAL ECONOMIC PROBLEMS AND GIVE IMPETUS TO WORTHWHILE PROGRAMS IN OTHER FORUMS. YOU COULD CALL FOR THE RELEVANT COMMISSIONS TO TAKE UP ON A PRIORITY BASIS SPECIFIC PROPOSALS IN YOUR UN SPEECH THAT CAN BEST BE TREATED IN THE DIALOGUE CONTEXT. (OTHER OF YOUR PROPOSALS SHOULD BE RESERVED FOR DIFFERENT AND MORE APPROPRIATE FORUMS, IN PART TO PREVENT LINKING YOUR UN INITIATIVES IN TOTO TO THE FATE OF THE DIALOGUE.

12. OVERALL STRATEGY FOR DIALOGUE - SUCH A MINISTERIAL WOULD FURTHER OUR OVERALL STRATEGY FOR THE DIALOGUE. OUR STRATEGIC CONSIDERATIONS FOLLOW:

-- EVEN THOUGH THE SCOPE OF THE DIALOGUE HAS BROADENED, THE ENERGY ISSUES OF PRICE AND SUPPLY SHOULD LARGELY DETERMINE OUR POSTURE TOWARD THE IMPORTANT LINKAGE QUESTION, I.E., WHETHER THE PRODUCERS WILL BE ABLE TO LEVERAGE OUR ENERGY NEEDS FOR CONCESSIONS IN THE OTHER COMMISSIONS.

-- SINCE UNIFIED AND SUSTAINED CONSUMER COUNTRY ACTION TO RESTRAIN ENERGY CONSUMPTION AND DEVELOP NEW SUPPLIES IS THE ONLY WAY TO ACHIEVE OUR LONG-TERM OBJECTIVE OF INVULNERABILITY TO THE THREAT OF OIL SUPPLY DISRUPTION AND ARBITRARY OPEC PRICE INCREASES, OUR ENERGY STRATEGY

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FOR THE DIALOGUE SHOULD BE BASED ON A REALISTIC ASSESSMENT OF THE COSTS AND BENEFITS OF TRYING TO REACH AGREEMENT WITH THE PRODUCERS ON PRICE AND SUPPLY DURING THE SHORT TO MEDIUM TERM.

-- WE HAVE THREE BASIC OPTIONS ON PRICE: 1) TO SEEK SOME TYPE OF AGREEMENT TO CONSTRAIN PRODUCERS' CONTROL OVER PRICES (E.G. COMMODITY AGREEMENT WITH PRODUCERS PROTECTING THE PRICE CEILING AND CONSUMERS PROTECTING A PRICE FLOOR; INDEXATION IN RETURN FOR PRICE CUT, OR AT CURRENT PRICE LEVELS), 2) A LOOSE PRODUCER/CONSUMER CONSULTATIVE ARRANGEMENT ON OIL PRICES AND RELATED ENERGY ISSUES, OR 3) TO FOREGO ANY EFFORT TO GET PRICE RELIEF THROUGH THE DIALOGUE. AFTER CAREFUL ANALYSIS, WE COME DOWN ON THE LAST OPTION; WE DO NOT BELIEVE WE CAN GET A MEANINGFUL AGREEMENT ON PRICE AT A COST WE ARE PREPARED TO PAY. THE PRODUCERS HAVE ALL BARGAINING POWER NOW BECAUSE OF THEIR ABILITY TO DETERMINE PRICING AND PRODUCTION POLICIES UNILATERALLY; THEY WILL NOT LIKELY CEDE THIS DOMINATION EXCEPT IN RETURN FOR AN AGREEMENT TO INDEX AND LEGITIMIZE HIGH OIL PRICES. FURTHERMORE, A PRICE AGREEMENT WOULD TEND TO NEUTRALIZE GROWING MARKET AND LDC PRESSURES ON OPEC TO HOLD DOWN PRICE INCREASES AND SIGNIFICANTLY INCREASE PRESSURE TO INDEX THE PRICE OF OTHER COMMODITIES. HOWEVER, SINCE SOME EUROPEAN NATIONS FAVOR THE PRODUCER/CONSUMER CONSULTATIVE ARRANGEMENT, WE MAY LATER WANT TO CONSIDER SUPPORTING THIS OPTION, PROVIDING IT CAN BE OBTAINED AT NO COST TO US IN ENERGY OR OTHER AREAS.

SINCE CONSUMERS WOULD HAVE NO ECONOMIC DEFENSE AGAINST FUTURE EMBARGOES. SUCH AN AGREEMENT WOULD ALSO CREATE A FALSE SENSE OF CONFIDENCE AND THEREBY UNDERMINE ENERGY

INITIATIVES IN CONSUMING COUNTRIES.

-- WHILE NOT EXPECTING TO ACHIEVE AGREEMENT ON PRICE AND SUPPLY, WE SHOULD NEVERTHELESS CONTINUE IN THE DIALOGUE TO ARGUE THAT OIL PRICES ARE TOO HIGH AND ARE ECONOMICAL-
LY DISRUPTIVE. THIS WILL INCREASE PRESSURE ON THE OIL PRODUCERS TO MODERATE PRICES, WEAKEN THE OPEC/LDC LINK,
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AND HELP INSURE PUBLIC SUPPORT FOR THE DIALOGUE IN THE US AND OTHER INDUSTRIALIZED COUNTRIES.

-- WITH THIS STRATEGY, WE AVOID BEING DEMANDEUR ON ENERGY. THE PRODUCERS WILL NOT BE ABLE TO LEVERAGE US

IN THE ENERGY COMMISSION FOR CONCESSIONS IN THE OTHER COMMISSIONS. ON THE OTHER HAND, WE WOULD BE ABLE, IF WE LATER CHOOSE TO DO SO, TO ESTABLISH A REVERSE LINK AND JUSTIFY LACK OF SUBSTANTIAL MOVEMENT IN THE RAW MATERIALS AND DEVELOPMENT COMMISSIONS ON THE INTRANSIGENCE OF THE OPEC PRODUCERS ON THE ENERGY ISSUES.

-- THUS, THE MAJOR FOCUS OF THE DIALOGUE WILL TURN OUT TO BE ON COOPERATION AMONG OIL PRODUCING, CONSUMING, AND DEVELOPING COUNTRIES ON MEASURES TO STIMULATE ECONOMIC DEVELOPMENT. WE SHOULD USE THE DIALOGUE TO 1) FOLLOW UP ON A NUMBER OF YOUR PROPOSALS TO THE UNGA SPECIAL SESSION, 2) SEEK AN ENLARGED OPEC CONTRIBUTION, COMMENSURATE WITH ITS NEW WEALTH AND INFLUENCE IN THE WORLD, AND 3) TRY TO TIE OUR CONTRIBUTION TO THE ECONOMIC GROWTH OF LDCS IN THE RAW MATERIALS AND DEVELOPMENT COMMISSIONS TO INCREASED MULTILATERAL FINANCIAL ASSISTANCE BY OPEC. IN DEMONSTRATING GREATER FLEXIBILITY IN RESPONSE TO GREATER OPEC FINANCIAL CONTRIBUTIONS, WE MUST, HOWEVER, TAKE CARE TO AVOID COMPROMISING OUR ESSENTIAL BARGAINING LEVERAGE ON ISSUES BEING DECIDED OUTSIDE THE DIALOGUE.

13. ROLE OF COMMISSIONS - WITH REGARD TO THE COMMISSIONS, THEIR MAIN FUNCTION WILL BE AS "ENERGIZING CENTERS", GUIDING AND ENCOURAGING ACTIVITIES IN OTHER EXISTING FORUMS AND HELPING TO ESTABLISH NEW INSTITUTIONS IN AREAS THAT DEMONSTRATE A CLEAR NEED. SINCE WE DO NOT EXPECT TO GAIN MUCH ON ENERGY ISSUES IN THE DIALOGUE AND SINCE WORK ON RAW MATERIALS IS ALREADY UNDERWAY IN OTHER FORUMS,

IT IS LIKELY THAT THE FINANCIAL AND DEVELOPMENT COMMISSIONS WILL BECOME THE CENTRAL POINT OF WORK IN THE DIALOGUE. THE COMMISSIONS WILL BE REGARDED AS AN EXPERIMENT OF LIMITED DURATION (12 MONTHS). IF OTHER PARTICIPANTS MATCH OUR CONSTRUCTIVE ATTITUDE TOWARD THE
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COMMISSIONS, WE MAY SUBSEQUENTLY WANT TO CONSIDER EXTENDING THEIR LIFE. CHANCES FOR A CONSTRUCTIVE ATMOSPHERE IN THE COMMISSIONS WILL BE ENHANCED IF THE MEMBERSHIP IS BASED ON "OBJECTIVE

CRITERIA". MORE SPECIFICALLY, WE VIEW THE COMMISSIONS AS PERFORMING THE FOLLOWING FUNCTIONS:

-- ENERGY COMMISSION: GIVEN OUR ATTITUDE ON PRICE AND SUPPLY, WE SHOULD CONCENTRATE ON BUILDING COOPERATIVE LINKS WITH THE PRODUCERS AND ON ESTABLISHING JOINT EFFORTS TO PROVIDE RELIEF FOR NON-OILDC'S ENERGY BURDEN, INCLUDING YOUR PROPOSED INTERNATIONAL ENERGY INSTITUTE.

-- RAW MATERIALS COMMISSION: THIS COMMISSION WOULD FORMULATE GENERAL PRINCIPLES AND MAKE SPECIFIC RECOMMENDATIONS ON PARTICULAR COMMODITIES. WITHOUT INTERFERING WITH OR PREJUDICING WORK IN OTHER FORUMS, WE INTEND TO FOCUS THE WORK OF THIS COMMISSION ON A NUMBER OF YOUR UN PROPOSALS ON COMMODITIES. WE ARE ALSO PREPARED IN THIS COMMISSION TO DISCUSS AND DEMONSTRATE THE UNDESIRABILITY OF INDEXATION AND SOME OF THE ELEMENTS OF THE UNCTAD INTEGRATED PROGRAM FOR COMMODITIES.

-- DEVELOPMENT COMMISSION: WE WILL TRY TO GET THIS COMMISSION TO CONCENTRATE ON SPECIFIC PROPOSALS AND INSTITUTIONAL ARRANGEMENTS, LAYING THE GROUNDWORK IN MANY CASES FOR CONSTRUCTIVE PROGRESS IN OTHER FORUMS SUCH AS THE IBRD AND IMF. WE WANT TO DRAMATIZE THE LDC'S UNSUSTAINABLE BALANCE OF PAYMENTS DEFICITS AND THEIR COUNTERPART IN OIL PRICES AND OPEC FINANCIAL SURPLUSES -- THEREBY PUTTING OPEC ON THE DEFENSIVE. IN ADDITION, WE WILL SEEK TO HIGHLIGHT WEAKNESSES IN OPEC AID POLICIES AND PRACTICES, TRANSLATE GENERAL ACCEPTANCE OF YOUR UN SPEECH INTO A CONSTRUCTIVE WORKING RELATIONSHIP WITH LDCS AND RALLY SUPPORT FOR SPECIFIC PROPOSALS. WE WILL SEEK TO LIMIT DISCUSSIONS OF OTHER TOPICS, SUCH AS DEBT MORATORIA, INDEXATION AND AID TARGETS, WHICH WOULD REQUIRE OECD COUNTRIES TO BEAR THE ENTIRE BURDEN FOR LDCS' BALANCE OF PAYMENTS PLIGHT AND WHICH MIGHT INJECT AN ELEMENT OF IDEOLOGICAL CONFRONTATION INTO THE DIALOGUE.

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-- FINANCE COMMISSION: IN ADDITION TO DEALING WITH ISSUES REFERRED TO IT BY THE OTHER COMMISSIONS, WE ARE PREPARED FOR THIS COMMISSION TO DISCUSS INDEPENDENTLY WORLD BALANCE OF PAYMENTS POSITIONS AND PROBLEMS CONNECTED WITH INVESTMENT OF OPEC SURPLUSES. SUCH DISCUSSIONS SHOULD GIVE OPEC NATIONS GREATER RECOGNITION OF THEIR IMPORTANCE IN, AND RESPONSIBILITY FOR, INFLUENCING WORLD TRADE AND CAPITAL FLOWS AND ENCOURAGE RESPONSIBLE AND COOPERATIVE OPEC BEHAVIOR IN INTERNATIONAL FINANCIAL MARKETS. WE WILL TRY TO AVOID SERIOUS DISCUSSION OF INTERNATIONAL MONETARY REFORM IN THIS COMMISSION.

14. BALANCE SHEET FOR SECOND MINISTERIAL: WITH THIS OVERALL STRATEGY OF NOT PUSHING FOR AGREEMENTS ON ENERGY PROBLEMS AND CONCENTRATING ON COOPERATIVE EFFORTS TO PROMOTE INTERNATIONAL ECONOMIC GROWTH AND STABILITY, WE COULD MAKE A CREDITABLE PRESENTATION AT THE SECOND MINISTERIAL. WE COULD NOTE PROGRESS IN THE COMMISSIONS IN EXPANDING COOPERATIVE LINKS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES; INDICATE PROGRESS TOWARD IMPLEMENTING YOUR UN INITIATIVES AND REAFFIRM OUR COMMITMENT TO THEM; AND HINT THAT IF THE OIL PRODUCERS HAD BEEN MORE TRACTABLE, FURTHER PROGRESS MIGHT HAVE BEEN MADE IN HELPING LDCS. THE YEAR

OF THE DIALOGUE WOULD HAVE REDUCED THE AURA OF CON-
FRONTATION IN NORTH/SOUTH RELATIONS AND ENCOURAGED
EROSION OF OPEC/LDC COHESION.

15. CONSUMER COORDINATION: OUR SUCCESS IN DIRECTING THE
DIALOGUE DEPENDS IN PART ON MAINTAINING CLOSE COORDINATION
WITH OTHER INDUSTRIAL CONSUMING COUNTRIES, PARTICULARLY
ON ENERGY ISSUES, TO ENSURE THAT THEY DO NOT GET OUT IN
FRONT OF US ON KEY ISSUES AS INDEXATION. WHILE PRESERVING
BILATERAL FLEXIBILITY WITH MAJOR OIL PRODUCERS, WE SHOULD
COORDINATE OUR ENERGY POSITIONS IN ADVANCE IN THE IEA
AND, TO A LESSER EXTENT, OUR COMMODITY AND DEVELOPMENT
POSITIONS IN THE OECD. COORDINATION OF POSITIONS FOR
THE FINANCIAL COMMISSION SHOULD BE DONE IN BOTH THE IEA
AND OECD, AS APPROPRIATE.

16. TACTICS WITHIN THE ADMINISTRATION: SINCE YOUR UN
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PROPOSALS HAVE ALREADY RECEIVED INTERAGENCY CLEARANCE,
THE ONLY PROBLEM WE SHOULD HAVE IN SELLING YOUR MINIS-
TERIAL SPEECH WITHIN THE ADMINISTRATION IS THE NEW
PROPOSAL ON SHORT-TERM LDC PAYMENTS FINANCING. TREASURY
IS MORE LIKELY TO SUPPORT THE FORMATION OF A NEW IMF FUND
THAN A SPECIAL ISSUE OF SDRS OR ESTABLISHING A PERMANENT
AID/SDR LINK. BURNS WOULD PROBABLY ATTACK THE NEW ISSUE
OF SDRS AS INFLATIONARY. WE WILL, OF COURSE, HAVE TO GET
INTERAGENCY APPROVAL FOR OUR OVERALL STRATEGY FOR THE
DIALOGUE AND THE WORK OF THE INDIVIDUAL COMMISSIONS,
BUT THIS EXERCISE IS ALREADY UNDERWAY.

17. TACTICS WITH THE CONGRESS: WE BELIEVE YOU SHOULD
PLAY AN ACTIVE ROLE IN LINING UP CONGRESSIONAL SUPPORT,
PROBABLY BY HOSTING A SERIES OF BREAKFASTS SUPPLEMENTED
BY OUR BRIEFING OF KEY STAFFERS. WE WILL NEED TO SELL
KEY CONGRESSMEN ON THE NEW FINANCIAL PROPOSAL. REUSS IS
LIKELY TO OPPOSE A SPECIAL SDR ISSUE AS INFLATIONARY BUT
MIGHT SUPPORT THE AID/SDR LINK; DEMOCRATIC FINANCIAL EX-
PERTS (FOWLER, ROOSA) WOULD PROBABLY OPPOSE THE AID/SDR
IDEA. IT WILL BE IMPORTANT TO HAVE SOLID CONGRESSIONAL
BACKING AS WE MOVE THROUGH THE DIALOGUE, AND THE GOOD WILL
WE CAN GAIN WITH EARLY CONSULTATION COULD PAY DIVIDENDS
LATER WHEN WE COME TO THE CRUNCH OF SPECIFIC COMMODITY
OR DEVELOPMENT PROPOSALS THAT NEED CONGRESSIONAL APPROVAL
OR ACQUIESCENCE.

18. WE WILL, HOWEVER, HAVE TO TAKE CARE ON HOW WE HANDLE
THE OIL PRICE ISSUE IN THESE DISCUSSIONS. CONGRESS AND
THE PUBLIC EXPECT OIL PRICES TO BE A MAJOR ELEMENT IN THE
DIALOGUE. WE WILL NEED TO DEMONSTRATE TO THE CONGRESS A
GREATER DETERMINATION TO GET SOME RELIEF ON PRICES THAN
WE ACTUALLY BELIEVE FEASIBLE, BUT WE SHOULD ALSO REGISTER

AN EARLY NOTE OF SCEPTICISM AS TO OUR CHANCES FOR SUCCESS.
THIS WOULD HELP TO PREPARE THE WAY FOR GETTING LATER
CONGRESSIONAL SUPPORT FOR OUR NON-DEMANDEUR POSITION ON
ENERGY, WHEN THE COSTS AND BENEFITS OF A PRICE ARRANGE-
MENT BECOME CLEAR. WE SHOULD ALSO RAISE THE POSSIBILITY
OF SOME TYPE OF INDEXATION ARRANGEMENT ON OIL PRICES TO
1) GAIN A SENSE OF WHETHER SUCH AN ARRANGEMENT INVOLVING
A PRICE REDUCTION WOULD GET CONGRESSIONAL BACKING IN THE
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UNLIKELY EVENT THE PRODUCERS PROVED AMENABLE TO IT, AND
2) ENSURE THAT WE COULD CITE CONGRESSIONAL OPPOSITION
SHOULD OTHER INDUSTRIALIZED COUNTRIES LEAN TOWARD INDEXA-
TION AT CLOSE TO CURRENT PRICES. INGERSOLL

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